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C O N F I D E N T I A L SECTION 01 OF 02 DUBAI 000464

NOFORN

DEPARTMENT FOR NEA/FO, NEA/ARP (MASILKO) AND EEB
STATE PLEASE PASS TO USTR (BUNTIN)
SIPDIS

E.O. 12958: DECL: 12/15/2018
TAGS: EFIN ECON EINV PREL PGOV AE
SUBJECT: MORE THAN MEETS THE EYE - DUBAI'S MONEY PROBLEMS, AND ITS RESPONSE TO THEM

REF: A. A. DUBAI 391
¶B. B. ABU DHABI 1385
¶C. C. ABU DHABI 1360
¶D. D. DUBAI 417

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CLASSIFIED BY: Paul Sutphin, Consul General, Consulate General Dubai, UAE.
REASON: 1.4 (b), (d)

Classified by Consul General Paul Sutphin, reasons 1.4 (b) and (d).

¶1. (C/NF) Summary. Through the fog of Dubai's image management machine, there are signs of economic vulnerability. From official upset regarding an analysis critical of Dubai's finances, to (unconfirmed) reports of substantially decreased passenger loads on Emirates Airlines and murmurings of even steeper declines in the housing market, the Dubai rumor mill is increasingly pessimistic. This stands in marked contrast to Dubai officials' assurances that all under control. While the emirate is well known for its compulsive image control, the underlying question is whether senior officials in both the government and Dubai's large parastatal corporations actually are making the decisions necessary to come to grip with the looming potential crisis. There are few obvious signs this is happening, but senior sources indicate a wide ranging, but to date very quiet, reduction/contraction of many major projects is underway. End Summary.

Citibank scolded for highlighting Dubai's vulnerabilities

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¶2. (C/NF) During a 23 November meeting and in subsequent conversations, senior Middle East Citibank officials disclosed that bank management was recently dressed down by Dubai Ruler's Court officials over a 17 November report outlining challenges facing the GCC. While our contacts (and Post's Pol/Econ officers) view the report as on target and relatively benign, statements noting that Dubai faces significant risks in real estate and debt refinancing triggered substantial ire, with the Dubai government objecting to both the report's timing and tone (as well as local press coverage that overlooked Citi's caveats indicating Dubai could weather the financial crisis). Implied by authorities was also a sense of betrayal, since merely one year ago the Abu Dhabi Investment Authority (ADIA) came to the US based banking giant's aid with a 7.5 billion USD cash infusion. The report's author Mushtaq Khan, a respected

economist, is reportedly at risk of losing his position.

Mass Layoffs begin and Projects Stall

¶3. (C/NF) Just days after hosting an estimated 20 million USD opening party with S. African hotel developer Kerzner for its new Atlantis hotel on Palm Jumeirah Island, major Dubai parastatal developer Nakheel announced a 15 percent cut in its 3,500 workforce and a review of ongoing and planned projects.(Note: A senior official from Nakheel parent Dubai World told Consul General the opening had been planned and paid for so long ago that it would have cost nearly as much to cancel it at the 11th hour, so the decision was made to go ahead; the official admitted this was a "bad call.") Nakheel also quietly announced an indeterminate hold on Palm Jumeirah's other iconic hotel, the much-ballyhooed Trump Towers. Other firms, including private real estate developers Damac and Omniyat, land-rich parastatal Dubai Properties, and local brokerage Better Homes are preparQg to cut significant percentages of their own workforces. Meanwhile, new parastatal developer Meras announced plans to put on hold the vast majority of its multibillion dollar Jumeirah Garden City development, which was only launched a couple of months ago [ref A].

¶4. (SBU) Layoffs are extending beyond the real estate sector, not unexpectedly into finance and banking. Financial powerhouse Morgan Stanley has announced cuts in their Dubai International Financial Center (DIFC) office, while MENA Citigroup expects to absorb some of the expected 75,000 corporate worldwide downsizing, and rumors persist of more to come from the international banking houses located in the DIFC. Other financial sources predict a new round of local and regional bank mergers is likely in the near future, with accompanying lay offs.

Anecdotal tales of declining travel and tourism

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¶5. (C/NF) Post sources, one a senior pilot for Emirates Airlines, have related anecdotal tales of decreased loads on the emirate's crown jewel airline. Emirates' aggressive hiring/training programs have reportedly been put on hold; overtime for flight staff has been substantially curtailed; and passenger loads on international routes, most notably the new US/UAE routes, have fallen dramatically. Over the past week, Pol/Econoff has had conversations with local business people commenting on the uncommon ease of obtaining last minute First and Business class seats for the upcoming holidays, a time that historically has required months advanced bookings to guarantee any passage on the carrier. (Comment: Emirates management team has been in place since 1985, and emphasizes the "long view" that growth must continue despite difficult years; for example, Emirates inaugurated nonstop service to San Francisco December 15, despite the current market problems.)

Cosmetic or real show of financial strength

¶6. (C) On 2 December, in a highly publicized move, DIFC Investments repaid a 500 million USD loan several days before maturity. After initially pursing refinancing via a syndicated loan led by Goldman Sachs, DIFC announced that the cost of capital for the refinancing was too high, opting instead to repay the loan from internal resources. While praised in the local press as a sign that Dubai maintains the capital resources to meet its financial obligations, some cynics view the early repayment as a public relations move to offset increasing rumors of the emirate's financial instability.

Would an Abu Dhabi bailout solve Dubai's cash woes?

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¶7. (C/NF)_While many local economists project a relatively soft landing for the UAE, a number of contacts speculate the likely cash bailout of Dubai from Abu Dhabi would not come cheap, costing Dubai stakes in some of its prime assets (such as port operator DPWorld and Emirates Airlines). From publicly available information, it is not at all clear that needed tough decisions, such as a significant scaling back or cancellation of some scheduled and ongoing projects, dropping prices on existing, government/parastatal owned housing units, and regulatory changes enabling small businesses to thrive, are beinQmade. At least one key Dubai economist envisions a situation where the emirate could easily burn through a cash infusion with little or nothing to show, resulting in a deep, long-term economic slump.

Comment

¶8. (C) Dubai's growth plans target six key sectors: construction and real estate, financial services, travel and tourism, professional services, transportation and logistics, and trade and storage. Already, real estate and construction, key drivers of Dubai's economy, have taken a significant downturn which will have ripple effects; this has been exacerbated by the lack of capital, which is also causing contraction in the financial sectors. As a global recession expands, logic suggests tourism (as well as transshipment of goods and demand for services) will also decrease. What is unclear is how accurately the Dubai government views the situation, and what it is doing about it. While the public line has transmogrified of late from "all is well" to "there are challenges, but they are well in hand", several Emirati senior contacts have told us that a quiet but wide-ranging review of Dubai's prestige (and pricey) projects is underway, with a view toward completing those that will make money or those deemed too high profile to fail (e.g. Dubai's metro or Healthcare City), scaling back others, and eliminating some completely - particularly those on which little physical work has started (e.g. the 70 km "Arabian Canal"). The bottom line is depth and length of a potential Dubai recession depends on how well senior management comes to terms with a hard reality and pursues difficult decisions necessary to Dubai's long term financial health - and how well these decisions are communicated to increasingly cautious regional and global business partners and investors.
SUTPHIN